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**ASSIGNMENT TITLE: Accounting For Changing Prices**.

A lot of attribute are being reflected in the asset section of the statement of financial position. The account receivables are reported at the net amount expected to be in the future, short term investment are reported at either cost or current market value, inventory is recorded at lower of cost or market value while property plant and equipment are recorded at their carrying value.

Reporting assets at their historical cost can cause the statement of financial position to be irrelevant. For example, reporting a land that was purchased in 1925 at its historical of ₦1000 is unlikely to provide financial statement readers with useful information in the 21st century.

When the prices of goods and services in an economy increase in general we say that inflation has occurred. In the case of an inflation the general inflation rate also reflects the decrease in the purchasing power of the currency.

**Impact of Inflation on Financial Statements.**

Assets that are reported in the financial statement at their historical cost during an inflation period, are understated in terms of their current value. Understating assets can result in understated expenses and an overstatement of income. Ignoring these changes can lead to a lot of problems such as:

1. A negative effect on a company’s ability to borrow, because the collateral is understated.
2. An increase in the taxes to be paid to the government as a result of overstating the income.
3. It causes a distortion in comparison across companies.

**Purchasing Power Gains and Losses**

Historical cost accounting ignores the purchasing power gain or losses that may arise as a result of holding monetary assets such as; cash and receivables and monetary liabilities such i.e payables. Holding cash and asset during the inflation period can lead to a purchasing power loss, while holding liabilities i.e payables can result to a purchasing power gain.

**Methods of Accounting for Changing Prices**

There are two solutions developed to address the problems caused by historical cost accounting these solutions include: **account for changes in the general price level** also known as **general purchasing power**, the other is to **account for specific price changes** also known as **current replacement cost** simply called **current cost.**

**Net Income and Capital Maintenance**

Application of each of the three methods of asset valuation that is: historical cost, general purchasing power and current cost results in a different amount of net income. Each measure of net income relates to a specific concept of capital maintenance. Much of the debate surrounding the appropriate method for asset valuation relates to determining which concept of capital maintenance is mostimportant.